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RUEHBR/AMEMBASSY BRASILIA 6805
RUEHBU/AMEMBASSY BUENOS AIRES 4036
RUEHCV/AMEMBASSY CARACAS 1367
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RUEHMN/AMEMBASSY MONTEVIDEO 3615
RUEHQT/AMEMBASSY QUITO 4005
RUEHSG/AMEMBASSY SANTIAGO 8526
RHEHNSC/NSC WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

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SUBJECT: GOB SEEKS TO GAIN CONTROL OVER PRIVATIZED COMPANIES

¶1. Summary: According to press reports, the GOB intends to gain control over ten companies, which were partially privatized in the 1990s, by persuading or compelling private investors to sell their shares. Four of these companies are majority owned by U.S. investors, and none has received official notification from the government about this plan. Company representatives believe implementation of the GOB's plan will be difficult, if not impossible, as it will require amending three laws, revising Bolivia's pension system, negotiating with the companies and their shareholders, and, not least, coming up with around USD 1.5 billion. End summary.

Background on Capitalization

¶2. Between 1993 and 1997, the GOB capitalized (partially privatized) five important state enterprises in the hydrocarbons, transportation, and telecommunications sectors to form ten new "private" companies. Private investors acquired approximately 50% of the new companies' shares, a collective capitalization fund that administers pension payments received roughly 45%, and state company workers got the remaining 5%. U.S. investors purchased the shares of four of these companies: Corani SA (electricity generator)/Duke Electric, Ferroviaria Oriental (railroad)/Genesee and Wyoming Inc., Chaco SA (hydrocarbons)/Pan-American Energy, and Transredes (pipeline operator)/Prisma Energy.

Press Announces GOB Plan to Regain Control of the Companies

¶3. The press announced on March 5 that the GOB intends to seek control of these ten "capitalized" companies by acquiring 51% of their shares. It will reportedly do this by persuading shareholders to sell or by compelling them to do so if they prove unwilling. (Comment: It is unclear how the government might force shareholders to relinquish their property, but some believe it will challenge the legality or legitimacy of the process whereby the shares were originally acquired. End Comment.) According to press reports, Development Planning Minister Carlos Villegas announced that

the GOB plans to take over the shares of the collective capitalization fund and the workers, in addition to purchasing roughly 1% of the shares from the private investors in order to gain control over important decisions, such as investments, salaries, and board member appointments. This goal will reportedly be included in the GOB's 5-year development plan to be presented on April 15.

U.S. Companies Say Process Will Be Neither Quick nor Easy

¶4. Representatives of the companies with significant U.S. investment -- Chaco, Corani, and Transredes -- all said that they had received no official notification from the GOB about the plan. Chaco's Vice-President, Jana Drakic, told us that YPFB (the Bolivian state oil company) held a meeting with the managers of the collective capitalization fund on March 6 to discuss transferring shares to the government, but that the GOB has not contacted the private companies themselves. Drakic stated that the state would not necessarily gain control over key decisions were it to acquire majority ownership of the businesses. This control, she explained, was determined by regulations and laws. The General Manager of Corani, Jose LaFuente, concurred, stating that the GOB would have to modify three laws dealing with capitalization and pensions and negotiate with the companies, which would have to seek share-holder buy-in, in order to enact its plan. He added that 3% of the ex-workers of Corani had sold their shares on the stock market, so the GOB would have to purchase 4% to 5% of Duke's shares, not 1%, in order to hold 51%.

Nor Possible?

¶5. The President of Transredes, Ernesto Blanco, told us the GOB plan was not, in his view, economically feasible. He estimated that obtaining 51% ownership of the ten capitalized companies would cost around USD 1.5 billion, money the GOB does not have. As for Transredes, he explained, 50% of the company is owned by Prisma and Shell, while 34% is held by the pension fund and 16% by private individuals. Blanco agreed that the GOB might take over the pension fund shares, but contended that it would be extremely difficult for the GOB to acquire the additional 17% needed for majority ownership. He stated that most companies would prefer to sell their entire ownership interest rather than sell the 1% that would give away control.

Comment:

¶6. This reported plan is another example of the GOB's aim to revise the "neoliberal economic model." Although it clearly reflects a vision of increased state control over the economy, the plan does not go as far as some in the private sector had feared, i.e., complete nationalization. In this sense, the GOB seems to realize that it needs private business and investment to stimulate economic growth. However, it seems unlikely that the GOB can keep existing private investors in the capitalized companies happy, especially should it gain management control of these companies. End comment.

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